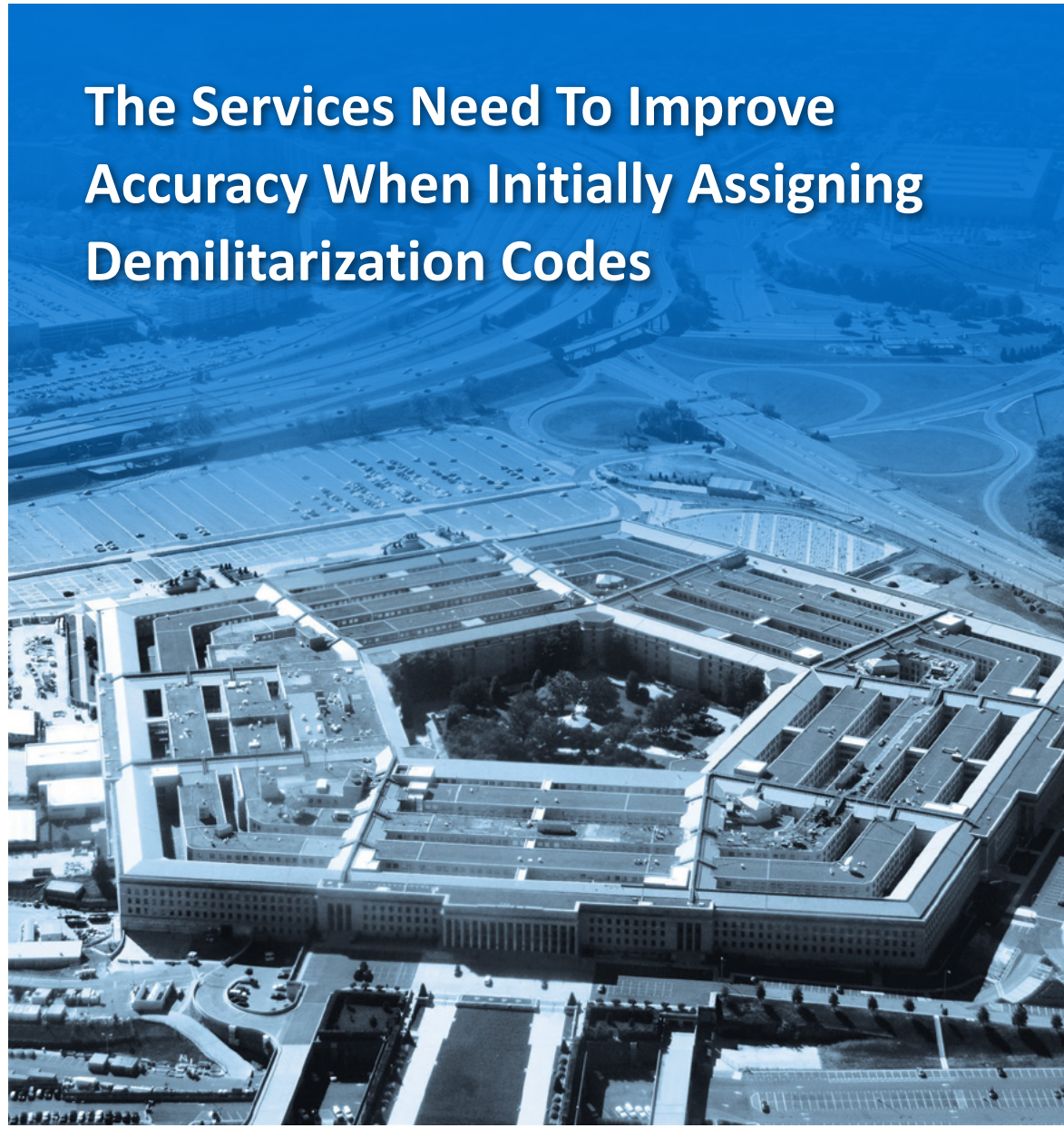




INSPECTOR GENERAL

U.S. Department of Defense

NOVEMBER 7, 2014



The Services Need To Improve Accuracy When Initially Assigning Demilitarization Codes

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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Results in Brief

The Services Need To Improve Accuracy When Initially Assigning Demilitarization Codes

November 7, 2014

Objective

This report is one in a series of reports concerning the DoD Demilitarization (DEMIL) program. The audit objective was to determine whether the Services were properly evaluating DoD property and assigning accurate DEMIL codes when property enters the DoD supply system. We also determined whether the Defense Logistics Agency was validating the accuracy of DEMIL codes when property was sent to the Defense Logistics Agency after being identified as excess.

Finding

The Services were not properly coding DoD property when initially registering items in the DoD supply system. Specifically, of the 33,364 DEMIL codes assigned during the 2-year period ending September 30, 2012, the DoD Demilitarization Coding Management Office determined that 8,872 codes were inaccurate. According to the DoD Demilitarization Coding Management Office officials, inaccurate coding still existed as of June 2014. The inaccurate coding occurred because personnel responsible for assigning DEMIL codes were not properly trained, no emphasis was placed on ensuring the codes were accurate when initially assigned, DoD and Service guidance did not clearly define the responsibilities and qualifications for the inventory control point DEMIL administrator position, and Service guidance lacked specific training requirements.

Although the Defense Logistics Agency had controls in place to ensure that the initially assigned DEMIL codes were reviewed and validated, resources

Finding (cont'd)

expended to challenge inaccurate DEMIL codes limited the Defense Logistics Agency's ability to reduce a backlog of about 12.1 million items needing a DEMIL code review. According to the DoD Demilitarization Coding Management Office officials, a backlog of about 12 million items still existed as of June 2014. Such a large backlog increases the risk that sensitive military technology could be improperly released or that funds could be unnecessarily expended by over controlling items that do not require DEMIL.

Recommendations

Among other recommendations, we recommend that the Assistant Secretary of Defense for Logistics and Materiel Readiness revise DEMIL guidance, establish metrics, and require the Services to revise their respective DEMIL guidance and establish controls.

Management Comments

Comments from the Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness addressed all specifics of the recommendations, and no further comments are required. Although not required to comment, the Air Force Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support agreed with the recommendations and provided comments. Please see the Recommendations Table on the next page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Assistant Secretary of Defense for Logistics and Materiel Readiness	None	1, 2, 3, 4, 5, and 6



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500**

November 7, 2014

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR
ACQUISITION, TECHNOLOGY, AND LOGISTICS
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL
MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE LOGISTICS AGENCY
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: The Services Need To Improve Accuracy When Initially Assigning Demilitarization Codes (Report No. DODIG-2015-031)

We are providing this report for your information and use. Service personnel did not assign accurate demilitarization codes when initially registering items in the DoD supply system. According to DoD Demilitarization Coding Management Office officials, 8,872 of the 33,364 codes (27 percent) assigned during the 2-year period ending September 30, 2012, were inaccurate. Resources expended to challenge and correct those codes have limited DoD's ability to reduce a backlog of more than 12 million items needing a demilitarization code review.

Although the information we analyzed was from FY 2011 and FY 2012, according to DoD Demilitarization Coding Management Office officials, these findings of inaccurate coding still existed as of June 2014, and corrective actions are still needed.

We considered management comments on a draft of this report when preparing the final report. Comments from the Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness addressed all specifics of the recommendations and conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments. Although not required to comment, the Air Force Director of Logistics, Deputy Chief of Staff, Logistics, Installations and Mission Support agreed with the recommendations and provided comments.

We appreciate the courtesies extended to the staff. Please direct questions to Mr. Timothy Wimette at (703) 604-8876 (DSN 664-8876).

A handwritten signature in cursive script, reading "Amy J. Frontz", is positioned above the printed name.

Amy J. Frontz
Principal Assistant Inspector General
for Auditing

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Acronyms and Abbreviations

Introduction

Objective

Our audit objective was to determine whether the Services were properly evaluating DoD excess property¹ and assigning accurate demilitarization (DEMIL) codes before sending the property to the Defense Logistics Agency (DLA), and whether DLA was adequately validating the accuracy of the assigned codes. This audit report is one in a series of reports concerning the DoD DEMIL program.

During the audit, we determined that the Services established DEMIL codes when property first entered the DoD supply system. Therefore, we revised the audit objective accordingly. The revised audit objective was to determine whether the Services were properly evaluating DoD property and assigning accurate DEMIL codes when property enters the DoD supply system. We also determined whether DLA was validating the accuracy of DEMIL codes when property was sent to DLA after being identified as excess. See Appendix A for a discussion of the scope and methodology and prior coverage related to the objective. In addition, we identified two other matters of interest that address the Army DEMIL-code challenge process and export control reform implementation. See Appendix D, Other Matters of Interest.

Background

DEMIL is the process of disabling DoD property so that it will no longer function, to prevent the release of sensitive items or information to unauthorized individuals such as the general public. There are nine unique DEMIL codes. The code designates which property must be disabled.

When property first enters the DoD supply system, the Services assign the property a DEMIL code designating whether DEMIL is required. Military items that are on the United States Munitions List (USML) or the Commerce Control List (CCL) require DEMIL, mutilation, or the application of trade security controls on export, import, and DEMIL of property. The USML contains Defense-related property specifically designed, developed, configured, adapted, or modified for military use (see Appendix B for a list of USML property categories). The CCL contains dual-use² items, software, and technologies subject to the export licensing requirements of the Department of Commerce. See Appendix C for a list of CCL categories.

¹ All references to property in this report are personal property. DoD personal property is property other than real property and records of the Federal Government.

² Dual use refers to items that have both commercial and military applications.

Non-DEMIL-required code A is used for items not on the USML or the CCL; DEMIL-required codes B, C, D, F, G, P, and Q are used for USML and CCL items. DEMIL code E is used by the DoD DEMIL Program Office only. Table 1 below lists each DEMIL code with their DEMIL requirement (or action needed).

Table 1. DEMIL Codes and Requirements

Code	DEMIL Requirements
A	Non-USML Item/ Non-CCL Items. No DEMIL or mutilation required.
B	USML Items. Mutilation to the point of scrap required worldwide. DLA Disposition Services shall store for reutilization and mutilate those items declared by the DoD as having no foreseeable DoD reutilization value.
C	USML Items. DEMIL required. Remove or DEMIL installed key point(s) as DEMIL code D.
D	USML Items. DEMIL required. Destroy item and components to prevent restoration or repair to a usable condition.
E	DoD DEMIL Program Office Reserved. Code is reserved for the DoD DEMIL Program Office's exclusive use. DEMIL instructions must be furnished by the DoD DEMIL Program Office.
F	USML Items. DEMIL required. Item managers, equipment specialists, or product specialists must furnish special DEMIL instructions.
G	USML Items. DEMIL required. Ammunition and explosives. This code applies to both unclassified and classified ammunition and explosive items.
P	USML Items. DEMIL required. Security classified items.
Q	CCL Items. Mutilate to the point of scrap required outside the United States. In the United States, mutilation requirement is determined by the DEMIL integrity code, and mutilation is required when the DEMIL integrity code is 3.

Source: DoD Manual 4160.28 Volume 2, "Defense Demilitarization: Demilitarization Coding," June 7, 2011

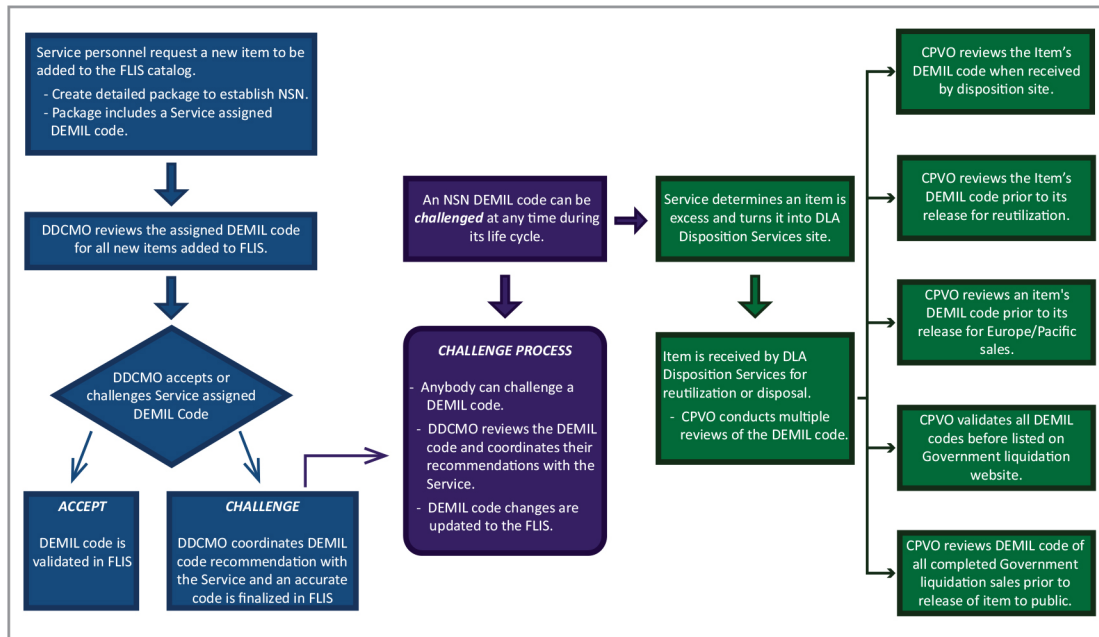
DEMIL Code Assignment and Review Process

The DEMIL code assignment and review process is initiated when the Services request that a new item be added to the Federal Logistics Information System (FLIS).³ The request includes a detailed package to establish a national stock number (NSN) that includes a Service-assigned DEMIL code. The DoD Demilitarization Coding Management Office (DDCMO) reviews the Service-assigned DEMIL code and either accepts or challenges the assigned code. The DEMIL code may or may not be changed during the item's life cycle based on changes in requirements. When the Services determine that an item is excess, the item may be turned in to a DLA Disposition Services site. At this point, the Controlled Property Verification Office (CPVO) conducts multiple reviews of the DEMIL code before reuse or disposal of the item.

³ FLIS is the primary system in which users access, maintain, store, and retrieve necessary information related to a supply item. The DEMIL code is just one of many codes registered in FLIS.

Figure 1 details the DEMIL code review process. The first (blue) column represents the assignment and review of DEMIL codes for new items entering the DoD supply system. The second (purple) column represents the DEMIL code challenge process. The third and fourth (green) columns represent the DEMIL code disposition review process for excess items.

Figure 1. DEMIL Code Assignment and Review Process



Source: DoDIG

Criteria

DoD Instruction 4160.28 “DoD Demilitarization Program,” April 7, 2011, establishes policy and assigns the Under Secretary of Defense for Acquisition, Technology, and Logistics overall responsibility for the DEMIL program training, oversight, code assignment accuracy, and life cycle planning in accordance with Public Law 105-261, “Strom Thurmond National Defense Authorization Act for Fiscal Year 1999,” Section 1051. Section 1051 requires the Secretary of Defense to improve the DEMIL program through:

- DEMIL training;
- oversight of DEMIL functions;
- maintenance of DEMIL codes throughout the item life cycle;
- assignment of accurate DEMIL codes;
- DEMIL guidance; and
- centralization of the DEMIL function into a single agency or office.

Under the authority of the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Assistant Secretary of Defense for Logistics and Materiel Readiness is responsible for implementing the DoD DEMIL Program. The Director, DLA, is responsible for maintaining a:

- DoD Demilitarization Program Office and designating a DoD Demilitarization program manager who is responsible for management control and oversight of the DoD DEMIL program, including maintaining a DoD DEMIL training program;
- DDCMO to improve DEMIL code accuracy; and
- CPVO to support the DDCMO in validating DEMIL codes for items turned in to the DLA Disposition Services sites.

DoD Manual 4160.28, volume 1, "Defense Demilitarization: Program Administration," June 7, 2011, provides procedures for program administration, training, and life-cycle planning. The manual states that the Defense Demilitarization Program Course (DDPC) and annual refresher training are mandatory for DoD Component personnel involved with the DoD DEMIL Program.

DoD Manual 4160.28, volume 2, "Defense Demilitarization: Demilitarization Coding," June 7, 2011, provides procedures for assigning DEMIL codes for DoD personal property, DEMIL code challenge information, and supplementary information related to DEMIL codes.

Review of Internal Controls

DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013, requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified an internal control weakness with the accuracy of the DEMIL codes assigned by Service personnel. We will provide a copy of this report to the senior officials responsible for internal controls in the DLA and the respective Services.

Finding

Services Initially Assigned Inaccurate Demilitarization Codes

Service personnel assigned incorrect DEMIL codes when initially registering items in the DoD supply system. Of the 33,364 DEMIL codes assigned during the 2-year period ending September 30, 2012, DDCMO officials determined that the codes for 8,872 (27 percent)⁴ were incorrect. This occurred because:

- personnel responsible for establishing the codes did not have the required training;
- assigning an accurate DEMIL code was not a priority for personnel responsible for establishing the codes;
- DoD guidance did not clearly define the roles, responsibilities, and minimum qualifications for the inventory control point (ICP) demilitarization administrator position; and
- Service guidance lacked specific requirements related to training.

Although DLA had controls in place to review and validate the initially assigned DEMIL codes, resources used to challenge inaccurate DEMIL codes during the 2-year period ending September 30, 2012, limited DLA's ability to reduce a backlog of about 12.1 million⁵ items that need a DEMIL code review. Of the 12.1 million backlog, about 5.1 million NSNs were assigned DEMIL code A (non-DEMIL), and about 7 million NSNs (DEMIL-required) were assigned a DEMIL code other than A. If any of the DEMIL code A items were incorrectly coded, there is an increased risk that sensitive military technology could be accidentally released to unauthorized individuals. Conversely, if any of the items were over coded, the department could spend unnecessary funds by over controlling items that do not require DEMIL.

⁴ DDCMO officials stated that the DEMIL change rate is 35 percent for the 12-month period ending June 30, 2014.

⁵ DDCMO officials stated that, as of June 2014, about 12 million NSNs still needed to be reviewed

Service Personnel Did Not Assign Accurate Codes

Service personnel responsible for DEMIL coding did not assign accurate DEMIL codes when initially registering items in the DoD supply system. DoD Instruction 4160.28 states that the Secretaries of the Military Departments are responsible for assigning accurate DEMIL codes to every item of DoD personal property.

Service personnel assigned erroneous DEMIL codes to 27 percent of new items.

DDCMO identified that Service personnel assigned erroneous DEMIL codes to 8,872 of 33,364⁶ (27 percent) of new items entering the DoD supply system for the 2-year period ending September 30, 2012. Table 2 shows, by DoD Component, the number of new items that required a DEMIL code change.

Table 2. New Items With Inaccurate DEMIL Codes

DoD Component	New Items	Codes Changed	Percentage of Inaccurate Codes*
Army	10,478	2,798	27
Navy	9,214	1,832	20
Air Force	11,021	3,680	33
Marine Corps	1,027	195	19
Special Operations Command	1,587	363	23
Defense Logistics Agency	37	4	11
Total	33,364	8,872	27

*Percentage of inaccurate DEMIL codes was calculated by using the number of codes changed divided by the number of new items.

To identify the reasons for the inaccurate coding, we visited three Service ICPs⁷ based on the number of new items entering the supply system and the percentage of inaccurate DEMIL codes identified from the information provided by DDCMO personnel. The three ICPs visited represented 14,246 of the 33,364 items (43 percent) entering the supply system. Of the 14,246 new items entering the supply system, 3,875 (27 percent) were inaccurately DEMIL coded. For example, the Air Force *Predator* program had 565 new items entering the DoD supply system. Air Force Program personnel identified 453 of the new items as DEMIL

⁶ DDCMO personnel provided us with a listing of 33,364 new items that were assigned a NSN and registered in FLIS. The 33,364 excludes 16,691 non-service items validated by DDCMO. The 16,691 items are managed by other Government Agencies, such as the Department of Homeland Security and the Federal Aviation Agency.

⁷ The three ICPs represent four individual sites. We visited the Naval Supply Systems Command Weapon Systems Support operating at two separate sites in Philadelphia and Mechanicsburg, Pennsylvania. We also visited Army Aviation and Missile Life Cycle Management Command, Alabama, and Warner Robins Air Logistics Complex, Georgia.

code “A” (non-DEMIL required). Of the 453 items, DDCMO personnel agreed with the DEMIL coding for 143 of the items and challenged the remaining 310 items (68 percent). All 310 challenged items were ultimately changed in FLIS to a DEMIL-required code.

DEMIL Code Training Not Completed

Service personnel responsible for assigning DEMIL codes had not completed the training required by DoD Manual 4160.28, volume 1. The Manual states that the DDPC and annual refresher training are mandatory for DoD Component personnel involved with the DoD DEMIL Program.

Defense Demilitarization Program Course

At the three ICPs visited, we determined that 178 of the 398 individuals (45 percent) required to take DDPC had not completed the training. DDPC is a mandatory, 3-day training course that covers DoD DEMIL policies and programs that are applicable to USML and CCL items. The course objectives are outlined below:

- identify DEMIL and Trade Security Controls regulatory and implementing documents;
- describe requirements for each DEMIL code;
- assign DEMIL codes to items listed in USML;
- identify additional requirements associated with DEMIL codes for ammunition and explosives, classified items, and items requiring special DEMIL instruction;
- distinguish between DEMIL code Q and DEMIL code A items by using the CCL;
- determine proper disposition requirements for USML and CCL items by using the DEMIL Code Challenge Program; and
- interpret policies and programs applicable to USML and CCL items in contractor inventory.

We notified Naval Supply Systems Command Weapon Systems Support–Philadelphia personnel of the deficiency, and they stated this deficiency occurred because there was no central repository to schedule and ensure completion of DDPC. During our audit, responsible Naval Supply Systems Command Weapon Systems Support–Philadelphia personnel took corrective action to enroll their DEMIL program personnel in DDPC. According to Naval officials, as of June 2014, 66 of 70 personnel completed the 3-day course. The four remaining individuals were scheduled to attend DDPC in FY 2015. Officials from the US Army Aviation

and Missile Life Cycle Management Command and the Air Force Warner Robins Air Logistics Complex, Life Cycle Management Center were uncertain as to which personnel required DDPC training. Specifically, officials were unaware that personnel responsible for initially assigning DEMIL codes required training, as personnel believed the DEMIL code would be changed and reviewed multiple times during an item's life cycle.

Annual Refresher Training

At the three ICPs visited, only 61 of the 177 (34 percent) individuals required to take the 2011 annual refresher training had done so. For 2012, 197 individuals were required to take the refresher training; however, 165 (84 percent) did not complete it. Key refresher training areas include the following:

- DEMIL program administration;
- coding for USML and non-USML items;
- items that require special DEMIL instructions;
- disposition requirements for USML and CCL items;
- DEMIL code challenge program;
- Trade Security Controls program; and
- contractor inventory.

None of the individuals at the US Army Aviation and Missile Life Cycle Management Command who were required to complete the annual refresher training were aware of the DoD requirement. Personnel thought that an Army DEMIL competency test fulfilled their annual refresher training requirement. That test was developed as a training aid for individuals performing DEMIL code challenges. The test contained 20 DEMIL code assignment scenarios but did not include the key training areas listed above.

Additionally, Naval Supply Systems Command Weapon Systems Support-Philadelphia personnel could not provide refresher certificates for 2011 or 2012. The responsible Naval personnel stated there was no central repository to schedule and ensure completion of the web-based annual refresher training. During the audit, responsible personnel took corrective action and established a central repository to schedule and track DEMIL training.

Training records at Warner Robins Air Logistics Complex indicated that 40 of 101 personnel (40 percent) responsible for assigning DEMIL codes did not take the annual refresher training in 2011. In addition, 110 of 116 personnel (95 percent) responsible for DEMIL coding did not take the annual refresher training in 2012. The training coordinator at Warner Robins Air Logistics Complex stated that

DoD guidance was unclear regarding annual refresher training requirements and that there was no Service DEMIL training guidance to implement DoD guidance. The lack of training increases the risks of assigning an inaccurate DEMIL code and could have contributed to the large number of items that were inaccurately coded. The Services should establish a process to ensure DEMIL program personnel comply with the DoD Manual 4160.28, 3-day DDPC and annual refresher training requirements. Additionally, Service officials should perform a review of the required 3-day DDPC and annual refresher training and take action to ensure that personnel identified as deficient are trained.

Accurate DEMIL Coding Was Not a Priority

The emphasis for assigning an accurate DEMIL code was not a priority for Service personnel responsible for initially assigning the code. In May 2006, a Government contractor completed a business case analysis assessing the organizational structure and operational processes of the DEMIL program. The study identified the lack of emphasis on the initial assignment of DEMIL codes. The study concluded:

In reality, consideration of DEMIL requirements is more of an afterthought; requirements are often not identified until the end of the life cycle when the item is ready for disposal. Item managers and contractors who have been assigned coding responsibility by the DoD DEMIL Manual are not aware of their responsibilities and often fail to recognize the impact of their coding actions. This often leads to assignment of (incorrect) codes without consideration of the cascading effects that this causes at the end of the process.

Meetings with selected Service officials reinforced the 2006 business case analysis conclusion that initial DEMIL coding was not a priority. For the 12-month period ending June 2014, DDCMO officials informed us that erroneous DEMIL codes assigned by Service personnel increased by 8 percent since September 2012. DEMIL coding personnel were focused on registering items in the system and expected that any DEMIL coding errors would be reviewed multiple times during the items' life cycle. For example, program officials explained that when items from a classified program transitioned to FLIS, the personnel assigning the DEMIL codes simply transferred the data for cataloging actions within FLIS without validating the DEMIL codes. This resulted in 586 of the 1,064 DEMIL-code challenges (55 percent) at the Warner Robins Air Logistics Complex. The Assistant Secretary of Defense for Logistics and Materiel Readiness should require the DoD DEMIL Program Office to establish and provide the Service ICP DEMIL

administrators with quarterly coding accuracy rate metrics, require each Service to establish controls to ensure DEMIL code accuracy, and hold personnel accountable for not reviewing and assigning accurate DEMIL codes.

DoD and Service Guidance Not Complete

The DoD Manual 4160.28, volume 1, lacks detail in addressing the roles, responsibilities, and minimum qualifications of ICP DEMIL administrators. The manual requires the Secretaries of the Military Departments to appoint a “knowledgeable individual” to serve as the DEMIL administrator at each Service ICP. However, the guidance does not specify the minimum qualifications and training requirements needed to be a DEMIL administrator or include details on the administrator’s actual responsibilities. At one of the ICPs visited, the DEMIL administrator was unclear on the position’s roles and responsibilities and if the position required DEMIL certification. DoD Manual 4160.28 should be revised to include specific roles and responsibilities for the ICP DEMIL administrators that include minimum qualifications and training requirements.

Service guidance did not include requirements described in DoD Instruction 4160.28 and DoD Manual 4160.28. The Army⁸ and Navy⁹ guidance was outdated and did not address the DoD requirement for the annual refresher training, which states that the annual refresher training is mandatory for all DoD Component personnel involved with the DoD DEMIL program. The Air Force¹⁰ guidance did not provide detailed DEMIL training requirements, including the DDPC and DEMIL annual refresher training; although it did refer personnel to the DoD guidance.

In addition, only the Navy guidance specifically addressed the ICPs’ DEMIL administrator roles and responsibilities; the Army and Air Force guidance did not. Service officials should update their guidance to include DEMIL training for all personnel involved with the DEMIL program and should describe the roles and responsibilities of the ICP DEMIL administrators based on the revised DoD Manual 4160.28.

Controls in Place, but Risks Still Exist

DLA had controls in place to ensure that initially assigned DEMIL codes and DEMIL codes for excess items were reviewed and validated. However, those controls did not reduce all risks that sensitive military technology could be accidentally


⁸ The Army DEMIL guidance is addressed in Army Regulation 700-144, “Demilitarization and Trade Security Controls,” May 5, 2009.

⁹ The Navy guidance is addressed in the Office of the Chief of Naval Operations Instruction 4520.1B, N41, “Navy Demilitarization Policy,” July 16, 2010.

¹⁰ The Air Force guidance is addressed in Air Force Manual 23-110, “United States Air Force Supply Manual,” April 1, 2012.

released nor prevent the unnecessary use of funds to control commercial-type, non-DEMIL items. Because of the high number of incorrect DEMIL codes for newly registered NSNs, DDCMO officials could not reduce a backlog of about 12.1 million NSNs in the DoD inventory that needed a DEMIL code review. In that backlog, there could be NSNs that required DEMIL but were incorrectly coded to not require DEMIL, and NSNs that did not require DEMIL but were incorrectly coded to require DEMIL.

As of August 2012, about 12.1 million NSNs were not yet reviewed by DDCMO.¹¹ Of those 12.1 million NSNs, 5.1 million (42 percent) were DEMIL-coded A (non-DEMIL). According to DDCMO officials, DEMIL-coded A NSNs are not required to be turned in to a DLA Disposition Services site upon being declared excess and therefore, the DEMIL code would not be reviewed before disposition. As a result, if an NSN is erroneously coded as DEMIL code A but the item was actually a USML or CCL item requiring DEMIL, proper controls and protections would not be applied resulting in an increased risk of the release of sensitive military technology. For example, DDCMO identified a circuit card assembly (NSN 5998-01-608-3407) used on the Navy's Distributed Common Ground System, which provides the Navy with primary intelligence, surveillance, reconnaissance, and training, was initially coded as not requiring DEMIL (DEMIL code A). The code was challenged and changed by DDCMO to DEMIL code D, which requires that the item be destroyed at the end of its life cycle. Had the code not been challenged and changed, sensitive technology could have been released when the circuit card assembly was declared excess. The 5.1 million DEMIL-coded A NSNs still needing review could potentially be coded incorrectly, increasing the risk of accidental release of sensitive military technology to unauthorized individuals.



About
12.1 million
NSNs were not
yet reviewed by
DDCMO.

The other 7 million NSNs needing review were coded as requiring DEMIL (other than DEMIL code A). If some of those items should have been DEMIL code A, DoD could be spending unnecessary funds to manage and control items not requiring DEMIL. For example, we identified a printer (NSN 7025-01-603-0111) that was incorrectly coded as an item requiring destruction (DEMIL code D), which was corrected by DDCMO personnel to DEMIL code A. Had the DEMIL code not been corrected, the Department would have unnecessarily spent funds to destroy the printer upon it being declared excess.

¹¹ According to DDCMO officials, about 12 million NSNs still needed to be reviewed as of June 2014.

Lastly, destruction of an item with an incorrect DEMIL code could result in harm to personnel and equipment. For example, we identified an aircraft ejection seat (NSN 1680-01-603-9638) that was incorrectly coded as an item requiring destruction (DEMIL code D). The code was corrected by DDCMO to a code denoting explosive materials (DEMIL code G), which requires special handling. Had the code not been changed, the explosive item may not have been handled or destroyed correctly thereby increasing the risk of explosion and harm to personnel and equipment.

Recommendations, Management Comments, and Our Response

We recommend the Assistant Secretary of Defense for Logistics and Materiel Readiness:

Recommendation 1

Revise DoD Manual 4160.28, volume 1, to detail the roles and responsibilities of the Services' inventory control point demilitarization administrators that include minimum qualifications and training requirements.

Principal Deputy Assistant Secretary of Defense Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness agreed, stating that DoD is:

- expanding demilitarization responsibilities in DoD Manual 4160.28 to address the minimum qualification and training requirements; and
- drafting a directive-type memorandum that will clarify the roles and responsibilities of the Services' inventory control point demilitarization administrator, and to require Service demilitarization administrators to review the accuracy of demilitarization codes and the training metrics at each inventory control point.

The planned completion date for the directive-type memorandum is the second quarter of FY 2015. For the full text of the Principal Deputy's comments, see the Management Comments section of the report.

Recommendation 2

Require the DoD Demilitarization Program Office to establish and provide the Service inventory control point demilitarization administrators with quarterly coding accuracy rate metrics.

Principal Deputy Assistant Secretary of Defense Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness agreed, stating that the directive-type memorandum that DoD is drafting will:

- require the DoD Demilitarization Program Office to provide coding accuracy metrics to the Services' inventory control point demilitarization administrators;
- require the DoD Demilitarization Program Office to work with the administrators to analyze the metrics and facilitate coding improvements;
- support the Services' internal responsibilities to identify and report any findings to supervisory levels for job performance accountability; and
- identify any demilitarization training needs.

Recommendation 3

Require that the Services update their respective demilitarization program guidance based on revisions made to DoD Manual 4160.28 in accordance with Recommendation 1, and incorporate DoD Manual 4160.28 Defense Demilitarization Program Course and demilitarization annual refresher training requirements.

Principal Deputy Assistant Secretary of Defense Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness agreed, stating the directive-type memorandum that DoD is drafting will require the DoD Demilitarization Program Office to work with Service demilitarization administrators in their review of Service level regulations, instructions, and manuals to clarify roles, responsibilities, and training requirements.

Department of the Air Force Comments

Although not required to comment, the Air Force Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, agreed, stating that the Air Force will update Air Force Instruction 23-101, "Air Force Materiel Management," August 8, 2013, and Air Force Manual 23-122, "Materiel Management Procedures," August 8, 2013, with the demilitarization program guidance and incorporate the Defense Demilitarization Program Course and demilitarization

annual refresher training requirements, once DoD Manual 4160.28 is updated. For the full text of the Air Force's comments, see the Management Comments section of the report.

Recommendation 4

Require the Services to establish a process to ensure demilitarization coding personnel comply with the DoD Manual 4160.28 demilitarization training requirements.

Principal Deputy Assistant Secretary of Defense Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness agreed, stating the directive-type memorandum that DoD is drafting will require the Services to comply with training requirements in DoD Manual 4160.28, as well as require the Services to incorporate the training requirements in their regulations, instructions, and manuals.

Department of the Air Force Comments

Although not required to comment, the Air Force Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, agreed, stating that the Air Force will update Air Force Instruction 23-101 and Air Force Manual 23-122 to comply with the DoD Manual 4160.28 demilitarization training requirements, which will ensure demilitarization coding personnel comply with the requirements.

Recommendation 5

Require Service personnel to perform a review of the required 3-day Defense Demilitarization Program Course and annual refresher training and take action to train any personnel identified as being deficient.

Principal Deputy Assistant of Defense Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness agreed, stating the directive-type memorandum that DoD is drafting will require the Services to identify and correct training deficiencies for both the Defense Demilitarization Program Course and annual refresher training. In addition, the Principal Deputy stated that the memorandum will require the Services to incorporate the training requirements into their regulations, instructions, and manuals.

Department of the Air Force Comments

Although not required to comment, the Air Force Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, agreed, stating that no later than the end of March 2015, the Air Force will perform a review of the required

3-day Defense Demilitarization Program Course and annual refresher training and implement actions to ensure personnel identified as being deficient are trained. In addition, the Director stated that Air Force Materiel Command will establish the training requirement in instructions at major commands.

Recommendation 6

Require the Services establish controls for personnel to assign accurate demilitarization codes and hold personnel accountable for not reviewing and assigning accurate demilitarization codes.

Principal Deputy Assistant Secretary of Defense Comments

The Principal Deputy Assistant Secretary of Defense for Logistics and Materiel Readiness agreed, stating the directive-type memorandum that DoD is drafting will require the Services to establish controls for coding accuracy and hold responsible personnel accountable for not reviewing and assigning accurate demilitarization codes. In addition, the Principal Deputy stated that although the Services control the enforcement of this requirement, the DoD Demilitarization Program Office will collect quarterly demilitarization coding accuracy metrics and provide the information to the Deputy Assistant Secretary of Defense for Supply Chain Integration.

Department of the Air Force Comments

Although not required to comment, the Air Force Director of Logistics, Deputy Chief of Staff for Logistics, Installations and Mission Support, agreed, stating that by the end of March 2015, the Air Force will establish controls for personnel to assign accurate demilitarization codes and hold personnel accountable for not reviewing and assigning accurate demilitarization codes. Additionally, the Director stated that the Air Force will establish the requirement in instructions at major commands.

Our Response

Comments from the Principal Deputy addressed all specifics of the recommendations, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this performance audit from September 2012 through September 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions.

We reviewed DoD and Service criteria, policy, and procedures related to the DEMIL program to determine the roles and responsibilities of the relevant DLA Headquarters and Disposition Services offices and Service ICPs. The specific criteria included Public Law, DoD Instruction and manuals, and Service guidance.

We interviewed key personnel involved with the DEMIL program at the Assistant Secretary of Defense for Logistics and Materiel Readiness, Headquarters, DLA, and the DLA Disposition Services, to evaluate the review of DEMIL coding for items in the DoD supply system. We also interviewed key personnel at three Service ICPs to determine how they assigned DEMIL codes to items that entered the DoD supply system and how they responded to DEMIL-code challenges. We reviewed manning documentation and training records to determine whether DEMIL training requirements were met at the three ICPs.

We obtained DDCMO-challenged data concerning DEMIL codes established within the DoD supply system during the 2-year period ending September 30, 2012. We reviewed all 9,438 DDCMO challenged DEMIL codes and determined DoD Component DEMIL-coding accuracy rates from the data of DEMIL codes challenged and later changed in FLIS.

We requested DDCMO provide updated information regarding DEMIL-code reviews of new NSNs established within the DoD supply system because our conclusions were based on information for a 2-year period ending September 30, 2012. DDCMO provided information for a 1-year period ending June 30, 2014.

Use of Computer-Processed Data

We did not rely on computer-processed data to support our finding and conclusions for this audit.

Prior Coverage

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued one report discussing DEMIL Coding. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

DoD IG

Report No. D-2011-033, "DoD Needs to Improve Management and Oversight of Operations at the Defense Reutilization and Marketing Office-Camp Arifjan, Kuwait," January 12, 2011

Appendix B

United States Munitions List Categories

Category	Description
I	Firearms, Close-Assault Weapons, and Combat Shotguns
II	Guns and Armament
III	Ammunition and Ordnance
IV	Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs, and Mines
V	Explosives and Energetic Materials, Propellants, Incendiary Agents, and Their Constituents
VI	Vessels of War and Special Naval Equipment
VII	Tanks and Military Vehicles
VIII	Aircraft and Associated Equipment
IX	Military Training Equipment and Training
X	Protective Personnel Equipment and Shelters
XI	Military Electronics
XII	Fire Control, Range Finder, Optical and Guidance and Control Equipment
XIII	Auxiliary Military Equipment
XIV	Toxicological Agents, Including Chemical Agents, Biological Agents, and Associated Equipment
XV	Spacecraft Systems and Associated Equipment
XVI	Nuclear Weapons, Design and Testing-Related items
XVII	Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated
XVIII	Directed Energy Weapons
XIX	Reserved
XX	Submersible Vessels, Oceanographic, and Associated Equipment
XXI	Miscellaneous Articles

Appendix C

Commerce Control List Categories

Category	Description
0	Nuclear Materials, Facilities and Equipment and Miscellaneous
1	Materials, Chemicals, Microorganisms, and Toxins
2	Materials Processing
3	Electronics
4	Computers
5	Telecommunications (Part I) and Information Security (Part II)
6	Sensors and Lasers
7	Navigation and Avionics
8	Marine
9	Propulsion Systems, Space Vehicles and Related Equipment

Appendix D

Other Matters of Interest

Army DEMIL Code Challenge Process

The Army process used to resolve DEMIL-code challenges did not record pertinent information in the DEMIL Code Management System Application. The system did not collect the Army's point of contact and the justification for not concurring with DDCMO's recommended code change. Because the response to the challenge was sent back to DDCMO without the Army's justification or a point of contact, DDCMO personnel were delayed in finalizing the items' correct DEMIL code. If the Army recorded the point of contact and justification for not concurring to DEMIL-code challenges in the DEMIL Code Management System Application, then DDCMO officials could finalize the DEMIL code in a timely manner.

Export Control Reform Implementation

In August 2009, the President mandated the Export Control Reform (ECR) Initiative to overhaul the nation's export control system. Under this system, the Departments of Commerce and State respectively administer the USML and the CCL with different statutory authorities that have significantly different requirements. The ECR Initiative consolidates the current system into a single-control list with the Department of State as the licensing agency. According to the President's mandate, the ECR Initiative is being implemented incrementally over a year starting in October 2013. As a result, the ECR Initiative will affect the process for assigning various DEMIL codes.

To implement the consolidation of the control list in increments, the DoD DEMIL Program Manager issued two guidance memorandums for ECR changes to DEMIL coding and posted them on the DoD DEMIL Program website. However, the DoD DEMIL Program Manager did not update DoD Manual 4160.28 guidance in accordance with the DoD Instruction 5025.01, "DoD Directives Program," September 26, 2012, incorporating change 1, August 20, 2013. The Instruction details procedures to update established policy, and requires directive-type memorandums be issued when time constraints prevent publishing a new issuance or incorporating a change to existing DoD Instructions and Directives. These directive-type memorandums are published on the official DoD Issuances website, <http://www.dtic.mil/whs/directives>.

Because the DEMIL Program Manager did not issue directive-type memorandums, Service personnel responsible for DEMIL coding were unaware of ECR changes to guidance that could potentially lead to inaccurate DEMIL coding. For example, a power supply (NSN 6130-01-521-2947) received a B DEMIL code in accordance with existing guidance in DoD Manual 4160.28. However, under the ECR changes, this item would now be assigned a Q code. If directive-type memorandums were issued as required by DoD Instruction 5025.01, then personnel responsible for DEMIL coding would have been aware of the policy updates.

Management Comments

Assistant Secretary of Defense



ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

OCT 16 2014

MEMORANDUM FOR PROGRAM DIRECTOR FOR READINESS AND CYBER
OPERATIONS, OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *ns 10/17/14*

SUBJECT: Response to DoD Inspector General Draft Report on "The Services Need To
Improve Accuracy When Initially Assigning Demilitarization Codes" (Project No.
D2012-D000LD-0201.000)

As requested, I am providing responses to the general content and recommendations
contained in the subject report.

Recommendation 1: Revise DoD Manual 4160.28, volume 1, to detail the roles and
responsibilities of the Services' inventory control point demilitarization administrators that
include minimum qualifications and training requirements.

DoD Response: Concur.

DoD is drafting a directive type memorandum (DTM) to provide clarification on the roles
and responsibilities of the Services' inventory control point (ICP) demilitarization (DEMIL)
administrators. Specifically, DoD is expanding the responsibilities in DoDM 4160.28-V1,
Enclosure 2, paragraph 4.b. and Enclosure 4 of DoDM 4160.28-V1 to address minimum
qualification and training requirements. The DTM will also require the DEMIL administrators to
review Service DEMIL code accuracy and training metrics at each ICP. The estimated
completion date for the DTM is second quarter FY15.

Recommendation 2: Require the DoD Demilitarization Program Office to establish and provide
the Service inventory control point demilitarization administrators with quarterly coding
accuracy rate metrics.

DoD Response: Concur.

The DTM referenced above will direct the DoD Demilitarization Program Office to
provide coding accuracy metrics to the Services' DEMIL administrators and work with the
administrators to analyze the metrics and facilitate coding improvements. This will support the
Military Services' internal responsibilities to pass any findings to supervisory levels for
appropriate job performance accountability and determine the need for additional DEMIL
training.

Assistant Secretary of Defense (cont'd)

Recommendation 3: Require that the Services update their respective demilitarization program guidance based on revisions made to DoD Manual 4160.28 in accordance with Recommendation 1, and incorporate DoD Manual 4160.28 Defense Demilitarization Program Course and demilitarization annual refresher training requirements.

DoD Response: Concur.

The DTM referenced above will direct the DoD Demilitarization Program Office to work with Military Service DEMIL Administrators in their review of Military Service level issuances (regulations, instructions, manuals, etc.) to clarify roles, responsibilities, and training requirements. The DoD Demilitarization Program Office addressed this issue during the DoD DEMIL Policy Working Group meeting held September 16-17, 2014.

Recommendation 4: Require the Services to establish a process to ensure demilitarization coding personnel comply with the DoD Manual 4160.28 demilitarization training requirements.

DoD Response: Concur.

The DTM referenced above will direct the Services to ensure compliance with training requirements of DoDM 4160.28 and incorporate these requirements in their Military Service level issuances as indicated in the DoD response to recommendation number three. This recommendation was also discussed during the DoD DEMIL Policy Working Group meeting held September 16-17, 2014.

Recommendation 5: Require Service personnel to perform a review of the required 3-day Defense Demilitarization Program Course and annual refresher training and take action to train any personnel identified as being deficient.

DoD Response: Concur.

The DTM referenced above will direct the Services to identify and correct any deficiencies in required training for both the Defense Demilitarization Program Course and annual refresher training. Training requirements will also be incorporated into Military Service level issuances as indicated in the DoD response to recommendation number three.

Recommendation 6: Require the Services establish controls for personnel to assign accurate demilitarization codes and hold personnel accountable for not reviewing and assigning accurate demilitarization codes.

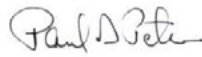
DoD Response: Concur.

The DTM referenced above will direct the Services to establish internal controls for coding accuracy and hold personnel accountable for not reviewing and assigning accurate

Assistant Secretary of Defense (cont'd)

demilitarization codes. While enforcement of this requirement is under the control of the Services, the DoD Demilitarization Program Office will collect quarterly accuracy metrics and provide a copy to the Deputy Assistant Secretary of Defense for Supply Chain Integration. The actions taken to clarify roles and responsibilities, update Service issuances, review accuracy metrics, and ensure training will facilitate the Services' responsibility to assign appropriate and accurate DEMIL coding.

Please contact [REDACTED] OASD(L&MR), [REDACTED],
[REDACTED]@mail.mil if additional information is required.



Paul D. Peters
Principal Deputy

Department of the Air Force



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, DC

15 October 2014

MEMORANDUM FOR DOD/IG

FROM: AF/A4L
1030 Air Force Pentagon
Washington DC 20330-1030

SUBJECT: The Services Need to Improve Accuracy When Initially Assigning Demilitarization Codes (Project No. D2012-D000LD-0201.000)

We concur with the DoDIG recommendations and have attached our management comments to the auditor's recommendation.

If you have any questions or concerns with our comments, please contact [REDACTED]
[REDACTED] AF/A4LR, DSN [REDACTED] mil@mail.mil.

A handwritten signature in black ink, appearing to read "K. Johnson", is positioned above the typed name.

KATHRYN J. JOHNSON, Brig Gen, USAF
Director of Logistics
DCS/Logistics, Installations & Mission Support

Attachment:
Management Comments

Department of the Air Force (cont'd)

Management Comments
Report of Audit, Base Level Due-in From Maintenance Assets
(Project F2013-L40000-0023.000)

AF/A4L concurs with the recommendations.

Recommendation.

Recommendation 1. The Assistant Secretary of Defense for Logistics and Materiel Readiness: Revise DoD Manual 4160.28, volume 1, to detail the roles and responsibilities of the Services' inventory control point demilitarization administrators that include minimum qualifications and training requirements.

Management Comments. *No action required for DoD Components.*

Recommendation 2. The Assistant Secretary of Defense for Logistics and Materiel Readiness: Require the DoD Demilitarization Program Office to establish and provide the Service inventory control point demilitarization administrators with quarterly coding accuracy rate metrics.

Management Comments. *No action required for DoD Components.*

Recommendation 3. The Assistant Secretary of Defense for Logistics and Materiel Readiness: Require that the Services update their respective demilitarization program guidance based on revisions made to DoD Manual 4160.28 in accordance with Recommendation 1, and incorporate DoD Manual 4160.28 Defense Demilitarization Program Course and demilitarization annual refresher training requirements.

Management Comments: AF/A4L (OPR: AF/A4LR; OCR: HQ AFMC/A4R) *Input:* Once DoD Manual 4160.28 is updated to reflect Recommendation 1 requirements, the Air Force will update AFI 23-101 and AFMAN 23-122 with the demilitarization program guidance and incorporate DoD Manual 4160.28 Defense Demilitarization Program Course and demilitarization annual refresher training requirements.

Recommendation 4. The Assistant Secretary of Defense for Logistics and Materiel Readiness: Require the Services to establish a process to ensure demilitarization coding personnel comply with the DoD Manual 4160.28 demilitarization training requirements.

Management Comments: AF/A4L (OPR: AF/A4LR; OCR: HQ AFMC/A4R) *Input:* The Air Force will update AFI 23-101 and AFMAN 23-122 to ensure demilitarization coding personnel comply with the DoD Manual training requirements.

Department of the Air Force (cont'd)

Recommendation 5. The Assistant Secretary of Defense for Logistics and Materiel Readiness: Require Service personnel to perform a review of the required 3-day Defense Demilitarization Program Course and annual refresher training and take action to train any personnel identified as being deficient.

Management Comments: HQ AFMC (OPR: HQ AFMC/A4R) *Input:* NLT end of March 2015, HQ AFMC will perform a review of the required 3-day Defense Demilitarization Program Course and annual refresher training and take action to train any personnel identified as being deficient. Additionally, HQ AFMC will establish a requirement in MAJCOM level instructions.

Recommendation 6. The Assistant Secretary of Defense for Logistics and Materiel Readiness: Require the Services establish controls for personnel to assign accurate demilitarization codes and hold personnel accountable for not reviewing and assigning accurate demilitarization codes.

Management Comments: HQ AFMC (OPR: HQ AFMC/A4R) *Input:* NLT end of March 2015, HQ AFMC will establish controls for personnel to assign accurate demilitarization codes and hold personnel accountable for not reviewing and assigning accurate demilitarization codes. Additionally, HQ AFMC will establish a requirement in MAJCOM level instructions.

Acronyms and Abbreviations

CCL	Commerce Control List
CPVO	Controlled Property Verification Office
DDCMO	DoD Demilitarization Coding Management Office
DDPC	Defense Demilitarization Program Course
DEMIL	Demilitarization
DLA	Defense Logistics Agency
ECR	Export Control Reform
FLIS	Federal Logistics Information System
ICP	Inventory Control Point
NSN	National Stock Number
USML	U.S. Munitions List

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U.S. DEPARTMENT OF DEFENSE

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For more information about DoD IG reports or activities, please contact us:

Congressional Liaison

congressional@dodig.mil; 703.604.8324

Media Contact

public.affairs@dodig.mil; 703.604.8324

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